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MONTHLY PROJECTIONS
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AFTER THE CRASH

One of the most difficult problems in forecasting is determining when an aberration will be corrected. Through the first nine months of 1987, equity prices appeared to move in only one direction, upward. However, earnings prospects were improving only slowly while interest rates were rising sharply. The valuation model used in our forecast had to be continuously overridden, for it suggested that the Dow should have peaked in the latter part of 1986 at a value only slightly over 2000. This relationship suggested that equity values should have fallen slightly from that level to the vicinity of 1800 by the beginning of the fall. In fact, speculative fervor associated with rumored mergers and acquisitions and the prospects that foreigners might valuate American earnings higher than American investors continued to push the stock market upward. By its peak in August at 2722, the Dow Jones index was nearly 50% higher than predicted by our valuation model. This was the largest percentage valuation distortion during the postwar period.

This dramatic discrepancy between market value and estimates of the fundamental worth of equities indicated that a sharp and abrupt correction probably would develop. However, the trigger that would begin the process of removing inflated value from equities was not readily apparent. In our monthly projections issued September 25, it was noted that "the peak in equity markets is not far away." "Liquidations of stock positions at this time will not deprive investors of significant appreciation opportunities." Yet, as rising interest rates obviously had not deterred equity investors, the adjustment might not occur until earnings prospects began to deteriorate. Such a condition was projected for the second half of 1988, which the markets probably would begin anticipating about the first of the year. In fact, just a little more interest rate burden became the straw that broke the stock market's back.

When the merchandise trade report for August showed a smaller improvement in trade balances than had been expected, investors in the bond market assumed

that the dollar would weaken significantly. This, in turn, would create inflationary pressures. Thus, bond prices began sagging significantly in the middle of October. With long-term interest rates rising by nearly a percentage point in less than two weeks, equity investors no longer could ignore what was happening in the bond market. Although program trading obviously accelerated the speed by which the stock market adjusted, a collapse to the price level supported by our fundamental model probably would have developed without aid of computer trading.

Unfortunately, because we were unable to determine when the stock market would adjust downward to more realistic evaluations, we were also unable to determine when consumers would reduce the magnitude of spending they apparently were conducting from gains in asset values. Despite the fact that savings rates were historically low, it was necessary to continue projecting unusually low savings rates until a downward adjustment in equity values was realized. The asset-outlay ratio used in determining consumption behavior continued to remain above normal at 4.4. This meant that savings rates would continue to remain below normal.

However, the asset-outlay ratio that would prevail with a more normal equity evaluation was slightly below normal. If the stock market crashed, as it did in October, consumers would increase their savings in order to readjust their balance sheets. As a result, a period of slightly above normal savings rates can be expected before the end of 1988.

This shift in savings rates from 3% to nearly 6% over the course of twelve months will substantially slow economic activity. However, the adjustments will not occur instantaneously. Indeed, only a small adjustment in savings rates appears to occur during the first quarter following a significant shift in the value of wealth. It is the second and third quarter following the wealth adjustment that leads to the most dramatic changes in savings rates. Thus, consumer spending will be nearly normal during this important Christmas season. Nevertheless, we have reduced our estimates of Christmas sales from an increase of nearly 6% to only a 4.8% gain over previous year levels. In the winter and spring, however, consumer spending should be very modest.

Initially, production schedules are not expected to adjust to the anticipated slowing of consumer outlays. As a result, the fourth quarter will grow nearly the same rate as during the summer months. Even in the winter, production will only gradually decline as involuntary inventories begin growing. By the spring, however, significant restraint in production is anticipated.

Investment expenditures also will be influenced by the stock market crash. At a minimum, the cost of raising equity capital will increase. Despite the fact that interest rates currently are moving downward, this higher cost of raising equity capital will delay the expansion programs of some firms. Orders will be delayed and shipments of durable goods will grow much more slowly than originally anticipated. In short, the stock market crash will, over time, cause both the investment and consumption schedules to shift. The almost decade long imbalance between savings and investment will be reduced.

As a result, interest rates will not climb as they normally do near a cyclical peak. Inflation also will not be as severe as originally anticipated. The stock market crash already appears to be creating some deflationary expectations. In addition, margin requirements have caused some selling on the com-

modities markets, forcing prices down there. This will result in lower industrial material prices than originally anticipated. In addition, reduced inflationary fears will restrain wage increases. Inflation probably will decline slightly in 1988, instead of rising slightly as previously anticipated.

If the stock market crash is a correction to more fundamental values, as we suspect, there will not be any significant rebound in equity values. Moreover, as the consumption and investment schedules shift, the likelihood of an outright recession increases. Even with some relief in labor and finance charges relative to what otherwise would have been anticipated, the economic slowing caused by these adjustments should lead to a significant slowing of corporate profits. Fundamental support for equity values could deteriorate further. Nevertheless, no dramatic weakening in fundamental equity values is anticipated. If the stock market overreacts on the down side, as it tends to do, bargains could materialize. However, at 1800 on the Dow, the market appears to be appropriately valued rather than undervalued.

Quarterly Profile of GNP

	1987-3	1987-4	1988-1	1988-2	1988-3	1987 Annual	1988 Annual
Real:	3.8	2.0	1.0	0.8	1.4	2.7	1.6
Price:	2.4	3.8	4.1	3.0	3.3	3.0	3.4
Nominal:	6.2	5.9	5.2	3.9	4.8	5.8	5.1

Monthly Statistical Highlights for October 1987

Payroll employment +265,000; index of hours worked +1.1%; household employment +684,000; civilian unemployment rate 5.9%; personal income +0.7%; savings rate 4.0%; personal consumption -0.1%; retail sales -1.4%; auto sales 9.4 million units; housing starts -2.9%; housing permits +0.6%; construction expenditures +0.8%; business inventories +0.6%; orders for durable goods -1.2%; orders for nondefense capital goods +0.7%; industrial production +0.3%; CPI +0.3%; PPI +0.1%; consumption deflator +0.4%; leading indicator -1.2%; real GNP (AR) +1.6%; M1(AR) +4.9%; M2(AR) +8.3%.

Monthly Statistical Highlights for November 1987

Payroll employment +178,000; index of hours worked +0.2%; household employment +220,000; civilian unemployment rate 5.8%; personal income +0.5%; savings rate +4.3%; personal consumption +0.1%; retail sales -0.4%; auto sales 9.0 million units; housing starts -4.0%; housing permits -1.7%; construction expenditures -0.6%; business inventories +0.6%; orders for durable goods -1.9%; orders for nondefense capital goods -2.8%; industrial production +0.2%; CPI +0.5%; PPI +0.5%; consumption deflator +0.5%; leading indicator -0.5%; real GNP(AR) +1.9%; M1(AR) +10.0%; M2(AR) +8.1%.

Commentary

Employment - The coincidence of Labor Day and the employment survey week created several significant distortions. First, the work week was cut by 0.6 hours. Second, fewer teenagers were in the work force than normally occur at this time of year. As a result, the household measure of employment fell significantly. Third, strikes by teachers removed 65,000 from payroll employment. The insured unemployment rate remains at 2.2% although initial unemployment claims have drifted upward from their early September cyclical lows. Excluding striking teachers, payroll employment grew nearly 200,000. Assuming the same rate of growth with the addition of the striking teachers leads to an above normal growth in payroll activity. It should also be noted that despite the unusually low hours worked, a surprisingly large 64% of all industries reported increases in employment.

Personal Income and Outlays - Wage and salary earnings grew stronger than anticipated from the employment report, further underlining the distortions created by the Labor Day survey. An acceleration in wage and salary earnings should be anticipated in October when no distorting effects will be apparent. Rapid growth in interest income in recent months should begin slowing as a result of the flight to liquidity generated by the stock market crash. In addition, weakness in commodity prices should cap the growth in farm income. As expected, tax liabilities accelerated slightly in September because of distortions associated with estimated tax payments. A slowing in the growth of tax liabilities will develop in October. Combined with no growth in outlays, personal savings should climb toward the more than 5% level that now is consistent with current household wealth holdings.

Although sales of furniture and hardware held their own in September, reduced wealth probably will hit these durable goods components hard. In addition, automobile sales are expected to be more sluggish than originally projected. However, another incentive program near the end of the model year has been incorporated into our projections. This explains why durable expenditures next September are slightly above forecasted values despite weakness anticipated in durable outlays through most of the year. Indeed, automobile sales currently are weaker than the projections show and may require some downward revisions for the next few months.

As more mild weather developed, expenditures on services showed surprisingly light growth in September. Service expenditures should increase significantly in October as a result of increased stock market transactions. Then, a significant slowing is anticipated. The surprising weakness in nondurables occurred as a result of relatively poor back-to-school sales. General merchandisers experienced a rare decline in activity for September. Given the lateness of Labor Day, which put all of that weekend's sales into September, the seasonally adjusted decline in retail sales is especially noteworthy. Christmas would have been lackluster even in the absence of stock market weakness. While most of the adjustment in consumer purchases will be in durable goods, some declines in purchases of nondurables and restraint in housing costs associated with services will provide reduced growth in those areas as well.

Construction - Housing starts were surprisingly strong in September as a result of a significant increase in starts in the South. However, permits in the South fell significantly. This suggests that unusually dry weather rather than any

shifts in economic fundamentals was responsible for the surge in housing activity. Housing is expected to adjust downward when more normal weather develops. In addition, the stock market trauma probably will delay housing sales into the spring. At that time, lower interest rates than otherwise would have prevailed will begin to stimulate housing activity. Nevertheless, economic uncertainties and lower income gains than originally expected will probably cause housing to recover more slowly in the spring than expected in the forecast. The projected increase in housing permits for October is the result of anticipated temporary increases in multi-family activity.

Hours worked in the construction industry fell especially hard in September, although Labor Day distortions are part of the problem in discerning what really happened to construction expenditures. The August surge in nonresidential construction appears to be temporary and is not the reversal of a declining trend. On the other hand, public construction probably will rebound more slowly than originally anticipated. Moreover, economic uncertainties created by the stock market trauma should cause a continued reduction in nonresidential construction through 1988. Previously, a rebound in that sector was anticipated during the second half of that year.

Business Activity - September's surprising increase in durable goods orders appears to be largely the result of orders for primary metals. As price increases were announced for early October, these orders probably were an attempt to avoid the price increase. As a result, a decline in orders for durable goods should be anticipated in October. Defense orders fell below defense shipments and should begin showing some recovery in the next few months. However, the stock market weakness probably will stretch out some orders, especially for machinery and nondefense capital goods. Although a collapse is not anticipated, nondefense capital shipments should experience only minor increases. Moreover, the backlog is expected to decrease in the second half of 1988, which could lead to a downturn in capital expenditures by the end of that year.

Industrial production is expected to slow significantly early in 1988 to remove excess inventories caused by weak sales. This reduction in activity will prevent capacity utilization from advancing significantly from current levels. As a result, reduced pressures for capital expenditures for expansion purposes will develop.

Retail inventories are expected to expand significantly in the fall as a result of unsold automobiles. Then, weakness in consumer spending on other goods should continue to generate significant inventory accumulation in the spring. Production adjustments then are expected late in the spring and early in the summer to regain control over inventory growth.

Prices - Producer prices in October are especially difficult to determine as a result of the shift in options provided on automobiles. Because of the use of options as standard equipment with higher prices, prices for the automobile fleet appear to be rising between 4% and 6%. However, prices of comparably equipped cars are rising less than 2%. The Bureau of Labor Statistics, which notoriously underprices automobiles, may select a relatively low price. This is one of the reasons why both the CPI and PPI are expected to show very modest gains in October. However, more dramatic increases are expected in November. In addition, the new model cars are not included in the pricing on the CPI until they exceed 50% of dealer sales. Relatively sluggish sales activity in October

suggests that few dealers were selling more new model cars than older vehicles. Inflation should then intensify slightly for the remainder of this year before becoming restrained again in the spring of 1988 as oil prices again come under downward pressures. The largest area of price restraint is expected in consumer nondurables, partially as a result of lower grocery store prices than previously anticipated.

Miscellaenous - The Labor Day distortions for the workweek will have an adverse effect on the leading indicators in September. Then, the stock market collapse will remove more than 1.5 percentage points from the leading indicators in October. In addition, as the crash came in the second half of the month, stock price averages probably will be even lower in November than the October averages unless there is a significant rebound in stock prices. The leading indicators could register a fourth consecutive decline in December if housing permits and orders are as weak as currently anticipated.

Although the merchandise trade deficit did not improve as much in August as anticipated, some of the disappointment was the result of special circumstances. Aircraft shipments fell by $500 million, but this especially volatile sector should improve in the months ahead. More significantly, auto parts flowing to Canada were down sharply in August, probably as a result of automobile strikes that were occurring at that time. As production has returned, a rebound in exports to Canada is anticipated. Of course, strikes in Korea and Canada also slowed imports of product into the United States. On the other hand, oil shipments into the United States are above monthly needs. Inventories were being added to hedge against turmoil in the Persian Gulf. Significant improvement in the trade balances should be anticipated in September.

Financial Markets

When the stock market crashed, the Federal Reserve responded by providing liquidity to the financial system. Unfortunately, some of that liquidity spilled across the borders and put downward pressure upon the dollar. Initially, the dollar weakness implied by Federal Reserve strategy was ignored by the bond market. Instead, bonds were absorbing funds from investors fleeing the stock market. However, the dollar's weakness is now becoming readily apparent, preventing further improvement in bond prices. The Federal Reserve is expected to resolve this dilemma by opting for increased liquidity in the United States despite further dollar weakness.

Fortunately, the inflationary fears that rapid liquidity normally would generate are not likely at this time. Much of the liquidity is required to provide reserves for banks who are receiving dramatic surges in checkable deposits. Failure to meet this reserve need would unduly reduce economic transactions. However, high liquidity needs probably will not continue indefinitely. Therefore, the Federal Reserve probably will engage in some liquidity draining after stability returns to the financial markets. For that reason, interest rates are expected to move upward slightly during the remainder of the fall before weaker economic activity leads to declining interest rates in the winter.

Rapid growth in the monetary aggregates does not constitute significant monetary stimulus. Rather, there has been a significant increase in liquidity demand that requires more rapid money growth to provide the same support for

economic transactions as a much smaller rate of growth would have provided in the absence of this liquidity need.

The major contributor to declining interest rates will be the shift in consumer savings. This will evolve over the next twelve months and, therefore, does not justify the current dramatic downward move in interest rates. Indeed, corporate borrowings will probably increase slightly as unanticipated inventory investment occurs in the fall and winter months.

Of course, any meaningful reduction in government borrowings will improve the interest rate outlook. However, the current initiative between the President and Congress really is over how an already-determined $23 billion reduction in the deficit should be accomplished. Less than meets the eye will be accomplished from these discussions unless the amount of deficit reduction is increased to the $30-$35 billion vicinity.

While the dollar is falling in value, foreign investors may back away from the U.S. economy. This could momentarily cause a larger surge in interest rates than currently anticipated. However, economic weakness expected from the fallout of the stock market plunge will lower rates again by the middle of 1988.

Equity Markets - As mentioned above, our valuation models suggest that a Dow near 1800 probably is appropriate for current earnings expectations and interest rate environment. Of course, if the anticipated recession is deeper than currently contemplated, lower stock values would be necessary. On the other hand, if interest rates fall further, equity values could rebound. However, a return to 2700 on the Dow should not be anticipated.

Moreover, a change in the characteristics of the cycle caused by the stock market crash should alter portfolio decisions. Some interest-sensitive stocks, especially utilities, should receive increased favor. On the other hand, some of the cyclical issues that appeared to have profit potential in early 1988, may now not have very good prospects. On the whole, the stock market probably will overadjust to the downside before gradually rebuilding in 1988. Only when the depths of the next recession are apparent will the market advance significantly.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	101598	101598	119.6	119.6	111835	111835	6.3	6.3	172.6	172.6
May	101672	101708	120.2	120.2	112447	112447	6.3	6.3	172.7	172.9
June	101788	101818	120.1	120.0	112257	112257	6.1	6.1	173.1	172.9
July	101973	102126	120.4	120.6	112462	112727	6.2	6.0	173.5	173.2
August	102150	102278	120.6	121.2	112653	113081	6.1	6.0	173.9	174.1
September	102327	102410	120.9	120.2	113171	112772	6.2	5.9	174.5	174.7
October	102485	102685*	120.9	121.5*	113029	113456*	6.3	5.9*	174.7	175.2*
November	102628	102863	121.0	121.7	113292	113658	6.3	5.8	175.0	175.6
December	102771	103016	121.2	121.9	113556	113837	6.2	5.8	175.2	176.1
January 1988	102965	103212	121.4	122.1	113769	114096	6.2	5.7	175.8	176.6
February	103163	103368	121.7	122.2	113970	114249	6.2	5.7	176.6	177.2
March	103360	103479	122.1	122.3	114173	114401	6.1	5.8	177.4	177.9
April	103526	103625	122.2	122.5	114388	114616	6.2	5.8	177.8	178.6
May	103693	103811	122.4	122.7	114595	114803	6.2	5.8	178.3	179.3
June	103860	103962	122.5	122.9	114804	114966	6.1	5.8	178.9	180.0
July	104051	104086	122.7	123.0	114992	115092	6.1	5.9	179.5	180.5
August	104225	104211	123.0	123.1	115134	115272	6.0	5.9	180.1	181.0
September	104400	104339	123.3	123.2	115276	115345	6.1	6.0	180.7	181.4

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	3.700	3.704	2.182	2.182	32.9	42.3	3.067	3.070	3.034	3.028
May	3.718	3.713	2.193	2.194	146.4	136.7	3.176	3.171	3.030	3.035
June	3.731	3.715	2.201	2.199	122.3	101.1	3.173	3.157	3.050	3.056
July	3.749	3.737	2.211	2.210	122.8	107.0	3.190	3.176	3.067	3.069
August	3.765	3.758	2.220	2.229	119.5	70.2	3.204	3.192	3.085	3.122
September	3.782	3.784	2.228	2.242	99.3	106.6	3.220	3.213	3.121	3.106
October	3.795	3.809*	2.236	2.258*	111.2	130.9*	3.229	3.234*	3.118	3.103*
November	3.809	3.828	2.244	2.268	105.0	140.5	3.238	3.249	3.133	3.109
December	3.825	3.846	2.252	2.280	100.8	139.6	3.249	3.262	3.148	3.122
January 1988	3.834	3.860	2.265	2.291	128.7	167.8	3.296	3.305	3.167	3.137
February	3.855	3.876	2.277	2.303	124.9	166.9	3.308	3.323	3.183	3.156
March	3.886	3.895	2.290	2.315	111.7	162.5	3.315	3.337	3.203	3.175
April	3.907	3.918	2.301	2.330	117.3	170.5	3.336	3.356	3.219	3.185
May	3.919	3.941	2.313	2.344	121.3	174.3	3.353	3.374	3.232	3.200
June	3.931	3.964	2.325	2.359	122.7	176.1	3.370	3.392	3.247	3.216
July	3.955	3.981	2.337	2.368	120.1	170.1	3.383	3.404	3.263	3.234
August	3.978	3.999	2.349	2.378	112.8	159.5	3.397	3.418	3.284	3.258
September	4.001	4.015	2.361	2.386	109.2	157.7	3.411	3.429	3.302	3.271

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	2939.7	2933.8	411.6	408.1	979.3	976.8	1548.8	1548.9	2497.0	2488.1
May	2935.9	2940.6	403.8	402.3	977.3	983.4	1554.7	1555.0	2481.2	2482.1
June	2956.3	2961.8	413.6	415.8	974.4	985.6	1568.3	1560.4	2487.9	2493.9
July	2973.2	2974.5	414.3	417.1	979.5	984.6	1579.4	1572.7	2492.2	2501.9
August	2990.1	3026.3	412.8	447.4	988.3	991.9	1589.0	1587.0	2498.0	2534.8
September	3025.9	3010.2	429.6	433.3	997.7	987.7	1598.6	1589.3	2521.6	2514.3*
October	3022.6	3006.6*	415.5	415.1*	1000.6	992.3*	1606.5	1599.2*	2510.5	2500.7
November	3037.5	3010.9	419.4	408.2	1002.6	995.3	1615.5	1607.4	2516.6	2492.1
December	3052.4	3024.8	423.4	410.9	1004.7	998.0	1624.3	1615.9	2522.6	2495.7
January 1988	3071.3	3039.2	425.8	412.6	1010.6	1002.0	1634.9	1624.6	2527.8	2498.3
February	3087.0	3057.8	422.7	418.2	1018.9	1006.1	1645.4	1633.5	2532.4	2505.2
March	3107.3	3075.9	424.4	422.6	1026.9	1011.5	1656.0	1641.8	2538.6	2511.5
April	3122.3	3086.1	427.1	419.2	1030.4	1016.0	1664.8	1650.9	2540.5	2511.9
May	3135.0	3100.4	427.5	422.8	1033.6	1018.0	1673.9	1659.6	2542.6	2515.0
June	3152.8	3116.3	433.0	423.9	1036.8	1022.2	1683.0	1670.2	2548.7	2520.4
July	3170.9	3133.9	433.8	426.4	1042.5	1027.4	1694.6	1680.1	2553.1	2526.9
August	3186.7	3157.7	432.5	437.1	1048.3	1030.8	1705.9	1689.8	2555.5	2538.5
September	3204.0	3170.6	432.7	433.7	1054.1	1036.5	1717.2	1700.4	2561.2	2539.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	124.96	124.96	20.03	20.03	10.4	10.5	76.83	76.83	28.10	28.10
May	124.55	124.87	20.07	20.00	9.7	9.9	76.86	77.08	27.61	27.78
June	125.08	126.62	19.98	20.05	10.2	10.2	76.97	77.54	28.13	29.04
July	125.60	127.06	20.30	20.30	10.2	10.5	77.08	77.33	28.22	29.44
August	126.12	129.27	20.19	20.18	10.1	12.4	77.78	77.98	28.15	31.11
September	128.83	128.76	20.07	20.17	11.0	10.1	78.52	77.93	30.24	30.66
October	127.33	126.98*	20.27	20.26*	9.6	9.4*	79.17	78.29*	27.89	28.43*
November	128.01	126.41	20.34	20.20	10.0	9.0	78.90	78.53	28.77	27.68
December	129.15	126.94	20.02	20.07	10.5	9.3	79.07	78.74	30.06	28.13
January 1988	129.39	127.46	20.02	19.88	10.4	9.6	79.53	79.06	29.84	28.52
February	129.68	128.44	19.94	19.93	10.2	9.9	80.18	79.38	29.56	29.13
March	130.51	129.39	19.97	19.98	10.3	10.1	80.81	79.81	29.73	29.60
April	131.10	129.34	20.09	19.92	10.4	9.8	81.09	80.16	29.92	29.26
May	131.40	129.92	20.08	19.95	10.4	10.0	81.34	80.32	29.98	29.65
June	132.30	130.38	20.52	19.90	10.5	10.1	81.59	80.65	30.19	29.83
July	132.84	131.08	20.75	19.96	10.4	10.2	82.04	81.06	30.05	30.06
August	133.15	132.60	20.69	20.04	10.3	10.8	82.50	81.33	29.96	31.23
September	133.62	132.66	20.65	20.11	10.3	10.5	82.95	81.78	30.02	30.77

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	1.686	1.643	1.238	1.208	1.586	1.598	397.3	396.2	349.2	348.2
May	1.598	1.606	1.115	1.130	1.487	1.493	398.6	396.7	349.6	347.7
June	1.552	1.586	1.067	1.088	1.469	1.517	394.0	393.9	345.0	344.0
July	1.588	1.598	1.103	1.143	1.503	1.487	391.9	393.4	342.0	341.1
August	1.611	1.598	1.122	1.111	1.516	1.502	393.5	399.6	341.9	345.6
September	1.620	1.669	1.126	1.168	1.528	1.493	395.6	396.6*	342.5	341.9*
October	1.618	1.620*	1.134	1.121*	1.511	1.502*	395.2	399.7	341.3	343.4
November	1.629	1.555	1.143	1.072	1.515	1.476	395.2	397.3	340.4	340.2
December	1.621	1.523	1.130	1.051	1.501	1.419	394.8	396.4	338.9	338.2
January 1988	1.583	1.521	1.108	1.062	1.492	1.422	396.9	390.4	339.8	332.3
February	1.560	1.471	1.083	1.009	1.467	1.376	399.0	388.6	340.7	329.9
March	1.552	1.477	1.086	1.017	1.473	1.359	401.3	387.5	341.5	328.1
April	1.588	1.474	1.115	1.003	1.489	1.365	401.9	387.7	341.2	327.3
May	1.609	1.471	1.139	0.998	1.521	1.368	403.4	389.8	341.6	327.8
June	1.608	1.482	1.130	1.006	1.518	1.379	404.9	389.8	341.7	326.7
July	1.589	1.493	1.116	1.020	1.493	1.384	409.4	391.0	344.3	326.9
August	1.595	1.511	1.102	1.023	1.498	1.426	412.0	392.2	345.3	326.8
September	1.592	1.519	1.104	1.029	1.492	1.429	414.1	394.1	346.2	327.6

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	121.4	121.0	76.7	75.7	199.2	199.5
May	123.8	125.5	75.8	75.3	198.9	195.9
June	123.0	120.1	76.1	72.9	194.9	200.9
July	122.3	121.7	77.0	73.8	192.6	197.9
August	122.0	124.5	77.8	74.5	193.7	200.6
September	122.0	121.5*	78.7	75.0*	194.9	200.1*
October	121.7	121.8	78.0	75.0	195.5	202.9
November	121.4	121.1	77.8	75.3	196.0	200.9
December	121.1	119.6	77.5	75.9	196.2	198.7
January 1988	121.4	119.3	78.8	76.2	196.7	194.9
February	121.6	119.8	80.1	76.5	197.3	192.3
March	121.9	120.2	81.5	76.9	197.9	190.4
April	122.5	120.9	80.7	77.3	198.7	189.6
May	122.8	121.4	81.1	77.6	199.5	189.3
June	123.2	121.9	81.5	77.5	200.2	190.4
July	123.8	121.3	81.9	78.0	203.7	191.7
August	124.4	120.7	82.1	78.4	205.5	193.1
September	125.1	120.5	82.4	78.8	206.6	194.8

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	320.8	320.8	106.93	106.98	28.30	28.31	27.33	27.32
May	321.5	321.8	106.98	106.99	29.99	30.03	26.95	26.97
June	321.4	321.6	108.53	109.18	29.09	29.99	27.61	27.85
July	321.9	323.3	109.24	109.17	29.93	31.98	27.53	28.10
August	322.5	325.1	107.65	106.62	28.65	29.52	27.65	28.47
September	322.9	326.1*	105.46	107.80	27.84	29.15	27.79	29.12
October	323.6	327.5	105.93	106.53*	27.95	29.36*	27.85	29.16*
November	324.3	328.9	106.81	104.49	28.13	28.53	27.96	29.24
December	324.8	330.1	107.16	103.66	28.42	28.29	28.33	29.53
January 1988	325.3	330.9	107.03	104.75	28.06	28.36	27.46	28.31
February	326.0	331.8	107.42	105.23	28.31	28.51	27.83	28.65
March	326.9	332.5	107.95	105.50	28.59	28.59	28.21	28.82
April	328.1	333.0	106.64	105.16	28.47	28.36	28.25	28.80
May	329.0	333.6	106.93	105.93	28.53	28.43	28.33	28.89
June	329.3	334.3	107.72	104.85	28.69	28.25	28.24	28.75
July	330.0	334.8	107.59	105.67	28.75	28.49	28.43	28.93
August	331.4	335.4	108.86	106.39	28.89	28.66	28.55	29.02
September	331.8	335.9	109.43	106.82	29.06	28.79	28.72	29.16

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	665.9	665.9	8.76	8.76	127.3	127.4	79.4	79.6
May	670.4	671.6	9.23	9.24	128.0	128.2	79.7	79.9
June	669.2	674.8	9.36	9.44	128.2	129.1	79.7	80.3
July	673.4	677.7	9.45	8.91	128.7	130.6	79.9	81.1
August	677.5	678.8	9.36	8.80	129.0	131.0	80.0	81.2
September	678.1	682.2*	9.40	9.53	129.3	131.2	80.0	81.2
October	682.5	686.3	9.46	9.26*	129.6	131.6*	80.1	81.3*
November	685.3	690.4	9.55	9.33	129.8	131.9	80.1	81.3
December	687.4	693.3	9.63	9.48	130.1	132.2	80.1	81.4
January 1988	691.5	696.1	9.69	9.63	130.4	132.5	80.1	81.5
February	694.3	698.4	9.76	9.68	130.9	132.6	80.3	81.3
March	696.1	700.7	9.77	9.74	131.3	132.6	80.4	81.0
April	699.2	703.5	9.83	9.70	131.6	132.8	80.4	81.0
May	702.5	705.8	9.89	9.79	132.0	133.1	80.5	81.0
June	704.6	707.4	9.95	9.88	132.4	133.4	80.6	81.0
July	707.8	710.1	10.03	9.95	132.8	133.5	80.7	80.9
August	709.6	711.4	10.09	9.82	133.2	133.5	80.9	80.7
September	712.9	714.3	10.15	10.23	133.6	133.4	81.0	80.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	337.9	337.9	295.3	295.3	317.4	317.3	116.9	116.7
May	339.0	339.0	296.2	296.2	318.6	318.6	117.2	117.2
June	340.4	340.2	296.8	296.9	320.2	320.2	117.6	117.5
July	341.2	341.0	296.7	297.4	321.8	322.6	118.0	117.6
August	342.5	342.7	297.3	297.3	322.6	323.0	118.4	117.8
September	343.8	343.4	298.0	298.2	321.0	322.4	118.8	118.1
October	344.6	344.4*	298.5	298.5*	323.1	324.9*	119.0	118.5*
November	345.5	346.1	299.1	300.1	323.6	325.7	119.3	118.9
December	346.4	347.3	299.5	301.0	324.2	326.8	119.6	119.3
January 1988	347.6	348.7	300.1	302.2	325.8	328.0	120.0	119.7
February	348.7	349.9	300.6	303.0	327.6	329.7	120.5	120.1
March	349.9	351.1	301.2	303.9	329.3	330.5	120.9	120.4
April	351.4	352.3	302.5	304.6	330.5	331.2	121.3	120.7
May	353.0	353.4	303.8	305.2	331.0	331.9	121.7	121.0
June	354.6	354.6	304.1	305.8	331.5	332.7	122.1	121.4
July	356.0	355.7	305.5	306.4	333.9	333.9	122.5	121.7
August	357.1	356.9	305.8	307.2	335.0	335.4	123.0	122.0
September	358.3	358.1	306.3	308.0	333.7	334.0	123.4	122.4

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	117.7	117.9	106.0	105.9	111.1	111.2	126.2	126.5	113.8	113.8
May	118.3	118.5	105.9	105.9	111.8	111.8	126.8	127.2	114.0	114.1
June	118.8	118.8	106.2	106.6	112.4	112.2	127.3	127.3	114.2	114.5
July	119.3	118.9	106.6	106.6	112.8	112.1	127.8	127.6	114.6	115.3
August	119.7	119.4	107.0	107.5	113.2	112.6	128.2	128.2	115.1	115.6
September	120.0	119.7*	107.3	107.7*	113.5	112.9*	128.6	128.7*	115.5	116.0*
October	120.4	120.2	107.3	108.2	113.8	113.2	129.0	129.2	115.8	116.4
November	120.7	120.8	107.4	108.6	114.1	113.5	129.5	129.7	116.1	116.8
December	121.0	121.2	107.5	108.8	114.4	113.8	130.0	130.2	116.5	117.2
January 1988	121.5	121.6	107.8	108.9	114.8	114.2	130.5	130.8	116.8	117.5
February	121.9	122.1	108.0	109.1	115.1	114.5	131.0	131.4	117.1	117.8
March	122.4	122.5	108.2	109.3	115.4	114.8	131.5	132.0	117.5	118.1
April	122.9	122.9	108.5	109.4	115.9	115.1	132.0	132.5	117.8	118.5
May	123.3	123.3	108.8	109.6	116.4	115.5	132.6	133.0	118.1	118.9
June	123.7	123.6	109.1	109.7	116.8	115.9	133.2	133.4	118.5	119.3
July	124.2	124.0	109.4	109.9	117.3	116.2	133.8	133.9	118.9	119.6
August	124.7	124.4	109.6	110.0	117.8	116.5	134.3	134.5	119.3	120.0
September	125.1	124.9	109.9	110.3	118.2	116.8	134.7	135.1	119.6	120.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	-13.32	-13.32	186.6	187.9	4420	4410	3781	3779	-15.9	-18.3
May	-14.40	-14.04	187.5	188.9	4452	4453	3799	3799	-20.3	-21.9
June	-14.00	-15.71	188.0	190.8	4474	4472	3804	3806	-22.9	-24.3
July	-14.63	-16.47	188.6	191.4	4502	4487	3815	3815	-16.3	-17.6
August	-14.27	-15.67	188.9	192.6	4524	4516	3821	3834	-10.5	-13.9
September	-13.60	-14.53*	189.4	192.0*	4546	4535	3827	3840	-7.4	-10.5
October	-12.96	-13.96	189.0	189.7	4563	4556	3834	3845	-9.5	-11.3
November	-13.55	-14.48	188.6	188.8	4575	4579	3835	3851	-13.4	-9.6
December	-13.73	-14.89	189.1	186.9	4594	4599	3841	3855	-15.5	-9.2
January 1988	-13.26	-14.73	188.7	187.5	4622	4616	3852	3856	-16.2	-10.4
February	-12.43	-14.26	188.2	188.2	4657	4636	3865	3860	-17.1	-10.9
March	-11.86	-13.98	187.8	188.4	4680	4652	3871	3864	-17.1	-12.2
April	-12.24	-14.13	187.2	188.0	4701	4665	3876	3865	-16.3	-10.5
May	-12.85	-13.65	188.0	188.6	4735	4682	3891	3869	-15.4	-9.3
June	-12.76	-13.27	188.3	188.2	4771	4697	3907	3869	-14.5	-7.6
July	-13.56	-13.54	188.9	188.4	4795	4718	3914	3877	-13.9	-7.5
August	-13.02	-13.21	189.2	188.7	4816	4736	3915	3882	-13.2	-9.3
September	-11.90	-12.86	189.3	188.5	4838	4755	3921	3885	-13.5	-11.8

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	262.2	261.6	750.4	750.3	2839.1	2839.9	6.37	6.37	5.90	5.90
May	263.4	263.6	753.2	753.1	2840.1	2840.7	6.85	6.85	6.05	6.05
June	263.8	263.9	746.7	746.5	2842.8	2842.3	6.73	6.73	5.99	5.99
July	264.4	264.0	748.5	747.6	2854.3	2848.4	6.56	6.58	5.88	5.76
August	265.5	266.3	750.6	750.9	2868.1	2860.1	6.65	6.73	5.80	6.15
September	266.7	267.4	752.9	751.1	2881.8	2874.6	6.68	7.22	5.83	6.64
October	268.9	268.5*	758.4	754.1*	2898.3	2893.8*	6.73	7.36*	5.86	6.13*
November	270.8	270.4	763.1	760.1	2913.6	2912.7	6.70	7.02	5.93	6.02
December	272.6	272.1	767.9	766.0	2925.7	2933.1	6.59	6.84	6.02	5.84
January 1988	274.5	273.6	773.5	771.0	2948.2	2952.2	6.43	6.47	5.79	5.67
February	276.4	275.1	779.4	776.1	2967.5	2969.7	6.34	6.39	5.70	5.56
March	278.3	276.7	785.5	780.3	2986.6	2990.5	6.25	6.42	5.65	5.64
April	280.0	278.2	790.3	784.5	3003.5	3007.6	6.38	6.46	5.88	5.68
May	281.7	280.3	796.1	789.9	3020.2	3027.3	6.69	6.51	6.01	5.71
June	283.4	282.4	801.8	796.4	3036.9	3051.2	6.94	6.55	6.13	5.76
July	285.1	284.6	805.2	803.4	3054.5	3074.0	6.73	6.43	6.08	5.59
August	286.8	286.3	809.1	808.8	3072.4	3092.4	6.56	6.29	5.93	5.42
September	288.5	288.2	813.0	814.2	3090.1	3111.0	6.57	6.02	5.80	5.36

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1987	8.85	8.85	7.55	7.55	6.45	6.45	6.52	6.52	7.75	7.75
May	9.33	9.33	8.00	8.00	6.93	6.93	6.99	6.99	8.14	8.14
June	9.32	9.32	7.79	7.79	6.92	6.92	6.94	6.94	8.25	8.25
July	9.42	9.42	7.68	7.72	6.67	6.65	6.75	6.70	8.25	8.25
August	9.50	9.67	7.74	7.82	6.65	6.71	6.73	6.75	8.25	8.25
September	9.50	10.18	7.70	8.26	6.73	7.37	6.84	7.37	8.25	8.70
October	9.59	10.66*	7.82	8.64*	6.78	7.26*	6.89	7.38*	8.25	9.03*
November	9.57	10.22	7.77	8.27	6.75	6.88	6.83	7.00	8.25	8.84
December	9.54	9.87	7.73	7.94	6.55	6.73	6.67	6.82	8.25	8.75
January 1988	9.33	9.73	7.52	7.81	6.40	6.46	6.53	6.54	8.25	8.37
February	9.18	9.76	7.34	7.83	6.26	6.33	6.39	6.43	8.25	8.25
March	9.21	9.65	7.37	7.68	6.25	6.38	6.35	6.47	8.25	8.25
April	9.37	9.72	7.54	7.70	6.41	6.44	6.52	6.55	8.25	8.25
May	9.48	9.70	7.64	7.73	6.68	6.55	6.79	6.69	8.25	8.25
June	9.59	9.64	7.75	7.64	6.95	6.59	7.06	6.70	8.25	8.36
July	9.33	9.51	7.48	7.56	6.76	6.42	6.89	6.53	8.25	8.50
August	9.21	9.43	7.37	7.50	6.53	6.25	6.65	6.38	8.25	8.26
September	9.09	9.38	7.24	7.45	6.50	6.03	6.63	6.13	8.25	8.04

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